

Coinbase Blockchain Study

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Business Background

History Of Coinbase



Coinbase become involved with blockchain



Coinbase became involved with blockchain technology when it was founded in 2012. The primary reason for its involvement was to capitalize on the growing potential of cryptocurrencies and provide a secure, user-friendly platform for trading, storing, and managing digital assets.

- **Founded:** 2012
- **Location:** Registered in Delaware, no physical headquarters
- **Nature:** Currently, the **largest U.S. crypto financial services provider.**
- **Listing:** On April 14, 2021, Coinbase went public via DPO on NASDAQ **as the first crypto stock**, with a trading-focused business model and subscriptions/services as supplementary.
- **Number of customers:** As of November 10, 2021, Coinbase had **73 million users**, with **7.4 million monthly active users.**
- **Platform currency:** **80% bitcoin and ethereum.**
- **Technology:** Integration of **15 blockchain protocols**, supporting over **90 cryptocurrencies** for custody or trading

Co-founder and Diverse Team



Brian Armstrong

Co-Founder & CEO

Age: 40

- Graduate from Rice University
- Was developer for IBM; Consultant at Deloitte; Software Engineer at Airbnb



Emilie Choi

President & COO

Age: 42

- Graduate from John Hopkins and Wharton Business School
- Was Vice President of LinkedIn and Business Strategy Director of Warner Bros



Alesia Haas

CFO

Age: 44

- Graduate from CPSU-San Luis Obispo
- Was CFO of Onewest Bank and Sculptor Capital Management



Manish Gupta

EVP of Engineering

Age: unknown

- Graduate from UIUC
- Was VP of Engineering at Google and Lyft



Paul Grewal

CIO

Age: 51

- Graduate from MIT & University of Chicago
- Was Vice President at Facebook; Magistrate Judge at U.S District Court

Coinbase Core Analysis Framework

Core Competence

- Cryptocurrency Transactions & Subscriptions Services
- Retail/Institutional Customer Transactions
- Building Encrypted Ecosystem

Core Drivers (Important Influencing Factors)

- Total Scale of Cryptocurrency Transactions
- Cryptocurrency Liquidity & Variety
- Coinbase Market Share
- Trust & Convenience

Company Growth & Market Opportunity

Company Growth

- Increase Crypto Variety
- Diversify business area
 - Trading sector → subscription service

Market Opportunity

- Acceptance of Crypto ↑
- Correlations between encrypted assets and traditional assets ↑

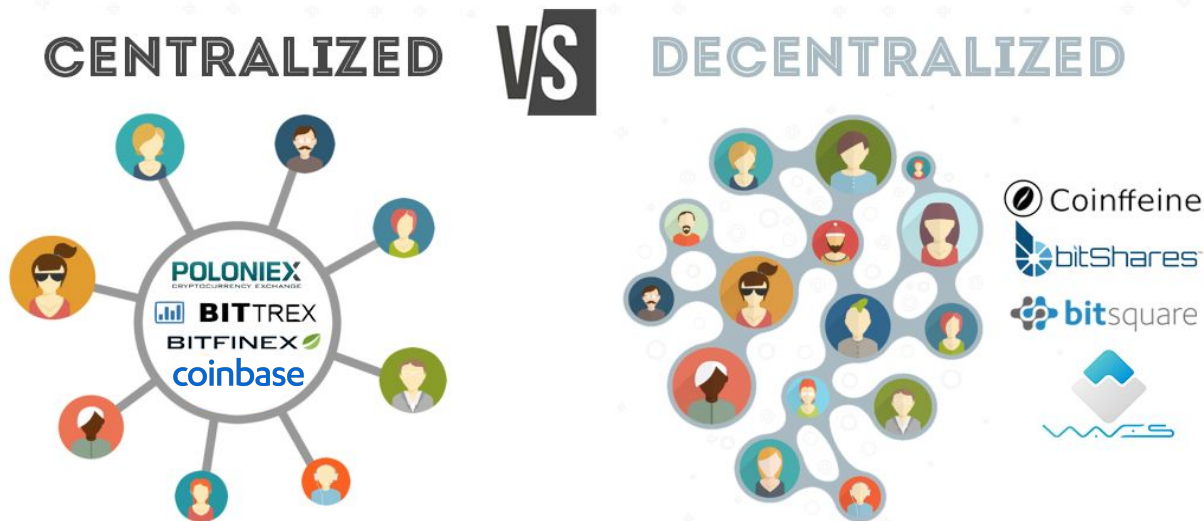
Blockchain is central to Coinbase's business

The company's core services revolve around **trading, storing, and managing digital assets**, which are all based on blockchain technology.

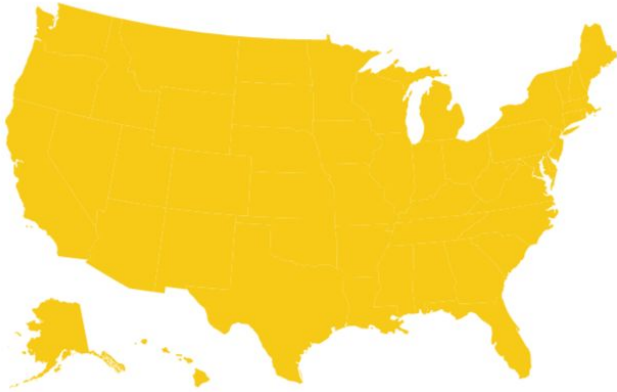
Coinbase's success and growth are closely tied to the **development and adoption of cryptocurrencies and blockchain technology**.

The platform **primarily deals with cryptocurrencies** like **Bitcoin and Ethereum**, both of which rely on blockchain.

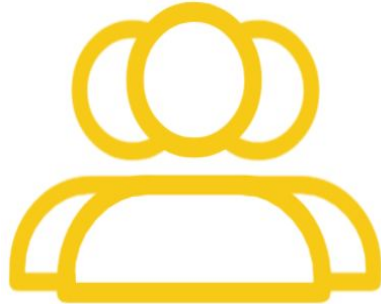
Additionally, the **integration of multiple blockchain protocols and support for a wide range of cryptocurrencies** further demonstrate the centrality of blockchain to Coinbase's business model.



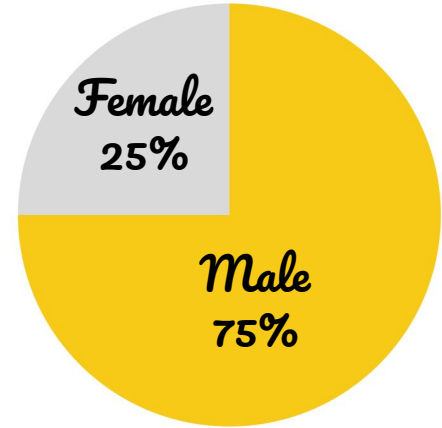
User Demographic Information



Coinbase is the largest crypto exchange in the US



Coinbase has 103 million verified users & 14,500 institutional client as of 2022



Coinbase demographics show that 75% of its users are male (32.64% are 25 - 34 years old)



02

Accounting and Finance

Balance sheet

Coinbase Global, Inc.
Consolidated Balance Sheets
(In thousands, except par value data)

	December 31,	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,425,021	\$ 7,123,478
Restricted cash	25,873	30,951
Customer custodial funds	5,041,119	10,617,552
Customer crypto assets ⁽¹⁾	75,413,188	—
USDC	861,149	100,096
Accounts and loans receivable, net of allowance	404,376	304,706
Income tax receivable	60,441	61,231
Prepaid expenses and other current assets	217,048	135,849
Total current assets	86,448,215	18,373,863
Crypto assets held	424,393	988,193
Lease right-of-use assets	69,357	98,385
Property and equipment, net	171,853	59,230
Goodwill	1,073,906	625,758
Intangible assets, net	135,429	176,689
Other non-current assets	1,401,720	952,307
Total assets	\$ 89,724,873	\$ 21,274,425

The Crypto assets decreases over year which would have negative effect on the platform net worth and shareholder equity.

Holding of cryptocurrencies: value of cryptocurrencies ↑ —Crypto Asset ↑ —total assets ↑ on the balance sheet

Balance sheet

Coinbase is responsible for safeguarding crypto-assets of its customers, thus should record a liability on its balance sheet for its obligation to do so

Decreasing crypto asset borrowing reflect reduce in platform's overall debt load and improvement on financial flexibility.

Increases as the value of cryptocurrencies increases

Liabilities, Convertible Preferred Stock and Stockholders' Equity				
Current liabilities:				
Customer custodial cash liabilities		\$	4,829,587	\$ 10,480,612
Customer crypto liabilities ⁽²⁾			75,413,188	—
Accounts payable			56,043	39,833
Accrued expenses and other current liabilities			331,236	439,559
Crypto asset borrowings			151,505	426,665
Lease liabilities, current			33,734	32,366
Total current liabilities			80,815,293	11,419,035
Lease liabilities, non-current			42,044	74,078
Long-term debt			3,393,448	3,384,795
Other non-current liabilities			19,531	14,828
Total liabilities			84,270,316	14,892,736
Commitments and contingencies (Note 21)				
Stockholders' equity:				
Class A common stock, \$0.00001 par value; 10,000,000 shares authorized at December 31, 2022 and 2021; 182,796 and 168,807 shares issued and outstanding at December 31, 2022 and 2021, respectively			2	2
Class B common stock, \$0.00001 par value; 500,000 shares authorized at December 31, 2022 and 2021; 48,070 and 48,310 shares issued and outstanding at December 31, 2022 and 2021, respectively			—	—
Additional paid-in capital			3,767,686	2,034,658

Income statement

Coinbase earn revenue primarily through fees earned for the transaction processed through the platform

	Year Ended December 31,		
	2022	2021	2020
	(in thousands)		
Revenue:			
Net revenue	\$ 3,148,815	\$ 7,354,753	\$ 1,141,167
Other revenue	45,393	484,691	136,314
Total revenue	3,194,208	7,839,444	1,277,481
Operating expenses:			
Transaction expense	629,880	1,267,924	135,514
Technology and development	2,326,354	1,291,561	271,732
Sales and marketing	510,089	663,689	56,782
General and administrative	1,600,586	909,392	279,880
Restructuring	40,703	—	—
Other operating expense, net	796,804	630,308	124,622
Total operating expenses	5,293,416	4,762,874	868,530
Operating (loss) income	(2,102,088)	3,076,570	408,951
Interest expense	22,201	29,160	—
Other expense (income), net	73	20,463	(248)
(Loss) income before income taxes	(2,124,352)	3,026,947	409,199
(Benefit from) provision for income taxes	(439,633)	(597,173)	86,882
Net (loss) income	(2,624,949)	\$ 3,624,120	\$ 322,317

value of cryptocurrencies ↑ —cost related to the purchase of cryptocurrencies

The value of crypto may affect the overall market so as to affect the company's operating cost indirectly. (ex: company reduce operating costs to maintain profit when market experiences a downturn.

Statement of Cash Flows

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities			
Net (loss) income	\$ (2,624,949)	\$ 3,624,120	\$ 322,317
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	154,069	63,651	30,962
Crypto asset impairment expense	757,257	329,152	8,355
Investment impairment expense	101,445	—	—
Other impairment expense	26,518	500	—
Stock-based compensation expense	1,565,823	820,685	70,548
Provision for transaction losses and doubtful accounts	(13,051)	22,390	(2,966)
(Gain) loss on disposal of property and equipment	(58)	1,425	355
Deferred income taxes	(468,035)	(558,329)	474
Unrealized loss (gain) on foreign exchange	28,516	(14,944)	1,057
Non-cash lease expense	31,123	34,542	25,012
Change in fair value of contingent consideration	(8,312)	(924)	3,281
Realized gain on crypto assets	(36,666)	(178,234)	(23,682)
Crypto assets received as revenue	(470,591)	(1,015,920)	(94,158)
Crypto asset payments for expenses	383,221	815,783	40,205
Fair value loss (gain) on derivatives	7,410	(32,056)	5,254
Amortization of debt discount and issuance costs	9,253	5,031	—
Loss (gain) on investments	3,056	(20,138)	150
Changes in operating assets and liabilities:			
USDC	(848,138)	(77,471)	37,936
Accounts and loans receivable	(141,023)	28,511	(117,167)
Deposits in transit	28,952	(36,527)	(39,989)
Income taxes, net	1,906	(62,145)	86,791

the value of
cryptocurrencies
↓ — imp
airment expenses

Crypto
impairment loss
could be result
of Coinbase's
loss on
cryptocurrency
investment

Beta

Beta=-0.007891747

The company's stock price is less volatile than the market. On average, a change of 1% in the market index would result in a change of 0.007891747% in the company's stock price, on average. This suggests that the company is less sensitive to broad market movements and may be considered a defensive stock.

Regression Statistics				Return	Excess Return			
Multiple R	0.058735112	Alpha		-0.00286	-0.01343			
R Square	0.003449813	Beta		-0.00770	-0.00789			
Adjusted R Square	-0.001387809							
Standard Error	0.068947212							
Observations	208							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	1	0.003389979	0.003389979	0.7131217	0.399389066			
Residual	206	0.979265917	0.004753718					
Total	207	0.982655897						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-0.013432629	0.004849303	-2.770012579	0.00611766	-0.022993256	-0.003872	-0.0229933	-0.003872
Mkt-RF	-0.007891747	0.009345259	-0.844465334	0.39938907	-0.026316362	0.01053287	-0.0263164	0.01053287



**Thank
You**